

CITY OF MYSTIC, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2010

CITY OF MYSTIC, IOWA

TABLE OF CONTENTS
JUNE 30, 2010

	<u>PAGE</u>
<u>OFFICIALS</u>	1
<u>INDEPENDENT AUDITOR'S REPORT</u>	2-3
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	4-8
<u>BASIC FINANCIAL STATEMENTS:</u>	<u>EXHIBIT</u>
GOVERNMENT-WIDE FINANCIAL STATEMENT:	
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS	A 9-10
GOVERNMENTAL FUND FINANCIAL STATEMENT:	
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES	B 11-12
PROPRIETARY FUND FINANCIAL STATEMENT:	
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES	C 13
NOTES TO FINANCIAL STATEMENTS	14-19
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES – BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS	20
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING	21
<u>OTHER SUPPLEMENTARY INFORMATION:</u>	<u>SCHEDULE</u>
SCHEDULE OF INDEBTEDNESS	1 22-23
NOTE MATURITIES	2 24
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION – ALL GOVERNMENTAL FUNDS	3 25
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	26-27
SCHEDULE OF FINDINGS	28-31

CITY OF MYSTIC, IOWA

OFFICIALS
JUNE 30, 2010

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Chris Chester	Mayor	January 2011
Walter Buban	Council Member	January 2011
Patsy Seals	Council Member	January 2011
Valerie Hatfield	Council Member	January 2011
Nancy Robinson	Council Member	January 2011
Alice Chester	City Treasurer	Indefinite
Patty Sisler	City Clerk	Indefinite
Deb George	City Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members
of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Mystic, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Mystic, Iowa's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all the prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, and each major fund of the City of Mystic, Iowa as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 11, 2011 on our consideration of the City of Mystic, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 20 through 21 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mystic, Iowa's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the years ended June 30, 2009, 2008 and 2006 (which are not presented herein) and expressed qualified opinions on those financial statements which were prepared in conformity of an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
July 11, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Mystic, Iowa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities were \$456,558 for fiscal 2010. Property tax revenue and operating grants, contributions and restricted interest were \$83,524 and \$284,236, respectively.
- Disbursements of the City's governmental activities were \$451,900 in fiscal 2010. Public works disbursements were \$319,082 while general government expenditures were \$77,858.
- The City's total cash basis net assets decreased 17.87%, or \$43,657 from June 30, 2009 to June 30, 2010. Of this amount, the net assets of the governmental activities increased \$4,658 and the net assets of the business type activities decreased \$48,315.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets – Cash Basis. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the City's long term debt and historical receipts and disbursements.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- **Governmental Activities** include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- **Business Type Activities** include the water and sewer funds. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. **Governmental funds** account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Local Option Sales Tax and the Fire Station, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2. **Proprietary funds** account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$157,833 to \$162,491. The City's cash balance for business type activities decreased from a year ago, decreasing from \$86,536 to \$38,221. The analysis that follows focuses on the changes in cash balances for governmental and business type activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year Ended June 30,	
	<u>2010</u>	<u>2009</u>
Receipts:		
Program receipts:		
Charges for service	\$ 19,932	\$ 15,128
Operating grants, contributions and restricted interest	284,236	105,337
General receipts:		
Property tax	83,524	70,093
Local option sales tax	45,005	38,434
Other general receipts and transfers	<u>23,861</u>	<u>27,309</u>
Total receipts	<u>456,558</u>	<u>256,301</u>
Disbursements:		
Public safety	25,104	11,780
Public works	319,082	105,514
Health and social services	1,367	-
Culture and recreation	6,231	4,248
Community and economic development	250	4,079
General government	77,858	62,887
Capital projects	6,594	86,573
Debt service	<u>15,414</u>	<u>5,125</u>
Total disbursements	<u>451,900</u>	<u>280,206</u>
Change in cash basis net assets	4,658	(23,905)
Cash basis net assets beginning of year	<u>157,833</u>	<u>181,738</u>
Cash basis net assets end of year	\$ <u>162,491</u>	\$ <u>157,833</u>

Changes in Cash Basis Net Assets of Business Type Activities

	Year Ended June 30,	
	<u>2010</u>	<u>2009</u>
Receipts:		
Program receipts:		
Water	\$ 54,178	\$ 60,475
Sewer	68,181	61,870
Capital grants, contributions and restricted interest	-	78,399
General receipts:		
Unrestricted interest on investments	322	641
Other general receipts and transfers	<u>594</u>	<u>49,686</u>
Total receipts	<u>123,275</u>	<u>251,071</u>
Disbursements:		
Water	75,105	199,122
Sewer	<u>96,485</u>	<u>75,297</u>
Total disbursements	<u>171,590</u>	<u>274,419</u>
Change in cash basis net assets	(48,315)	(23,348)
Cash basis net assets beginning of year	<u>86,536</u>	<u>109,884</u>
Cash basis net assets end of year	\$ <u>38,221</u>	\$ <u>86,536</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Mystic, Iowa completed the year, its governmental funds reported a combined fund balance of \$162,491, an increase of \$4,658 from last year's total of \$157,833. The following are the reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash basis balance decreased \$6,855 due in part to a reduction in expenses compared to prior year. In the prior year the ending cash balance decreased by \$78,150.
- The Road Use Tax Fund cash basis balance increased by \$5,515 because receipts slightly exceeded road use tax expenditures.
- The Local Option Sales Tax Fund cash basis balance increased by \$39,722 due to local option tax receipts in excess of disbursements.
- The FEMA Fund cash basis balance decreased by \$50,437 due to a significant increase in expenditures.
- The Fire Department fund cash basis balance decreased by \$4,287 from the prior year due to increased expenditures.
- The Debt Service Fund cash basis balance increased by \$21,000 due to current year property tax receipts in excess of expenditures.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$25,134 to \$34,980, while the Sewer Fund cash balance decreased by \$23,181 to \$3,241. These decreases are due primarily to operating disbursements and debt service expenditures during fiscal year 2010.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$282,222 in capital loan notes and other long-term debt, compared to \$307,305 last year, as shown below.

Outstanding Debt at Year End

	Year Ended June 30,	
	2010	2009
General obligation capital loan notes	\$ 38,971	\$ 47,000
Revenue notes	<u>243,251</u>	<u>260,305</u>
	\$ <u>282,222</u>	\$ <u>307,305</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$38,971 is below its constitutional debt limit of \$373,646.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Mystic, Iowa's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates, and fees charged for various City activities.

Inflation in the State was slightly higher than the national Consumer Price Index increase. The State's CPI increase was 2.603% for fiscal year 2010 compared with the national rate of 2.272%. Inflation has been modest here due in part to the slowing of the residential housing market and increases in energy prices in fiscal year 2010.

These indicators were taken into account when adopting the budget for fiscal year 2011. Amounts available for appropriation in the operating budget are \$488,833, an increase of 63.7 percent over the final 2010 budget. Intergovernmental receipts are expected to make up the majority of this increase. Budgeted disbursements are expected to increase by \$23,250, or 8.3 percent over the final 2010 budget. The City has added no major new programs or initiatives to the 2011 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by \$184,358, or 50.9 percent by the close of fiscal year 2011.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Mystic City Clerk, P. O. Box 69, Mystic, Iowa, 52574.

BASIC FINANCIAL STATEMENTS

CITY OF MYSTIC, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs		Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
	<u>Disbursements</u>		
Governmental activities:			
Public safety	\$ 25,104	\$ 11,754	\$ -
Public works	319,082	7,398	283,637
Health and social services	1,367	-	-
Culture and recreation	6,231	-	-
Community and economic development	250	-	-
General government	77,858	780	-
Capital projects	6,594	-	599
Debt service	15,414	-	-
Total governmental activities	<u>451,900</u>	<u>19,932</u>	<u>284,236</u>
Business type activities:			
Water	75,105	54,178	-
Sewer	96,485	68,181	-
Total business type activities	<u>171,590</u>	<u>122,359</u>	<u>-</u>
Total	\$ <u>623,490</u>	\$ <u>142,291</u>	\$ <u>284,236</u>

General receipts:

Property tax levied for:

General purposes

Debt service

Local option sales tax

Unrestricted interest on investments

Miscellaneous

Transfers

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Debt service

Unrestricted

Total cash basis net assets

See Notes to Financial Statements

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
\$ (13,350)	\$ -	\$ (13,350)
(28,047)	-	(28,047)
(1,367)	-	(1,367)
(6,231)	-	(6,231)
(250)	-	(250)
(77,078)	-	(77,078)
(5,995)	-	(5,995)
<u>(15,414)</u>	<u>-</u>	<u>(5,125)</u>
<u>(147,732)</u>	<u>-</u>	<u>(137,443)</u>
-	(20,927)	(20,927)
-	<u>(28,304)</u>	<u>(28,304)</u>
-	<u>(49,231)</u>	<u>(49,231)</u>
<u>(147,732)</u>	<u>(49,231)</u>	<u>(186,674)</u>
55,850	-	55,850
27,674	-	27,674
45,005	-	45,005
385	-	385
24,070	322	24,392
<u>(594)</u>	<u>594</u>	<u>-</u>
<u>152,390</u>	<u>916</u>	<u>153,306</u>
4,658	(48,315)	(43,657)
<u>157,833</u>	<u>86,536</u>	<u>244,369</u>
\$ <u>162,491</u>	\$ <u>38,221</u>	\$ <u>200,712</u>
\$ 55,907	\$ -	\$ 55,907
<u>106,584</u>	<u>38,221</u>	<u>144,805</u>
\$ <u>162,491</u>	\$ <u>38,221</u>	\$ <u>200,712</u>

CITY OF MYSTIC, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

		<u>Special Revenue</u>			
	<u>General</u>	<u>Road Use</u>	<u>Local Option</u>	<u>FEMA</u>	<u>Fire</u>
		<u>Tax</u>	<u>Sales Tax</u>		<u>Department</u>
<u>RECEIPTS:</u>					
Property tax	\$ 55,850	\$ -	\$ -	\$ -	\$ -
Other city tax	-	-	45,005	-	-
Intergovernmental	167,681	54,544	-	62,192	-
Charges for service	881	-	-	-	10,873
Licenses and permits	632	-	-	-	-
Use of money and property	385	-	599	-	-
Miscellaneous	12,651	-	-	6,766	-
Total receipts	<u>238,080</u>	<u>54,544</u>	<u>45,604</u>	<u>68,958</u>	<u>10,873</u>
<u>DISBURSEMENTS:</u>					
Operating:					
Public safety	20,516	-	-	-	4,588
Public works	28,434	49,029	-	241,619	-
Health and social services	1,367	-	-	-	-
Culture and recreation	6,231	-	-	-	-
Community and economic development	250	-	-	-	-
General government	77,858	-	-	-	-
Capital projects	712	-	5,882	-	-
Debt service	-	-	-	-	8,740
Total disbursements	<u>135,368</u>	<u>49,029</u>	<u>5,882</u>	<u>241,619</u>	<u>13,328</u>
Excess (deficiency) of receipts over (under) disbursements	<u>102,712</u>	<u>5,515</u>	<u>39,722</u>	<u>(172,661)</u>	<u>(2,455)</u>
Other financing sources (uses):					
Sale of assets	11,419	-	-	-	-
Transfers in	31,706	-	-	151,071	-
Transfers out	(152,692)	-	-	(28,847)	(1,832)
Total other financing sources (uses)	<u>(109,567)</u>	<u>-</u>	<u>-</u>	<u>122,224</u>	<u>(1,832)</u>
Net change in cash balances	(6,855)	5,515	39,722	(50,437)	(4,287)
Cash balances beginning of year	<u>(15,822)</u>	<u>-</u>	<u>59,641</u>	<u>56,050</u>	<u>23,057</u>
Cash balances end of year	\$ <u>(22,677)</u>	\$ <u>5,515</u>	\$ <u>99,363</u>	\$ <u>5,613</u>	\$ <u>18,770</u>
<u>Cash Basis Fund Balances</u>					
Reserved:					
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved:					
General fund	(22,677)	-	-	-	-
Special revenue funds	-	5,515	99,363	5,613	18,770
Total cash basis fund balances	\$ <u>(22,677)</u>	\$ <u>5,515</u>	\$ <u>99,363</u>	\$ <u>5,613</u>	\$ <u>18,770</u>

See Notes to Financial Statements

EXHIBIT B

<u>Debt</u> <u>Service</u>	<u>Total</u>
\$ 27,674	\$ 83,524
-	45,005
-	284,417
-	11,754
-	632
-	984
-	19,417
<u>27,674</u>	<u>445,733</u>

-	25,104
-	319,082
-	1,367
-	6,231
-	250
-	77,858
-	6,594
<u>6,674</u>	<u>15,414</u>
<u>6,674</u>	<u>451,900</u>

<u>21,000</u>	<u>(6,167)</u>
---------------	----------------

-	11,419
-	182,777
-	(183,371)
-	<u>10,825</u>

21,000	4,658
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<u>34,907</u>	<u>157,833</u>
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\$ <u>55,907</u>	\$ <u>162,491</u>
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\$ 55,907	\$ 55,907
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-	(22,677)
-	<u>129,261</u>
\$ <u>55,907</u>	\$ <u>162,491</u>

CITY OF MYSTIC, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Operating receipts:</u>			
Charges for service	\$ 54,178	\$ 68,181	\$ 122,359
<u>Operating disbursements:</u>			
Business type activities	<u>70,336</u>	<u>61,799</u>	<u>132,135</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(16,158)</u>	<u>6,382</u>	<u>(9,776)</u>
<u>Non-operating receipts (disbursements):</u>			
Interest on investments	322	-	322
Debt service	<u>(4,769)</u>	<u>(34,686)</u>	<u>(39,455)</u>
Total non-operating receipts (disbursements)	<u>(4,447)</u>	<u>(34,686)</u>	<u>(39,133)</u>
Deficiency of receipts under disbursements	<u>(20,605)</u>	<u>(28,304)</u>	<u>(48,909)</u>
<u>Other financing sources (uses):</u>			
Transfers in	1,264	5,916	7,180
Transfers out	<u>(5,793)</u>	<u>(793)</u>	<u>(6,586)</u>
Total other financing sources (uses)	<u>(4,529)</u>	<u>5,123</u>	<u>594</u>
Net change in cash balances	(25,134)	(23,181)	(48,315)
Cash balances beginning of year	<u>60,114</u>	<u>26,422</u>	<u>86,536</u>
Cash balances end of year	\$ <u>34,980</u>	\$ <u>3,241</u>	\$ <u>38,221</u>
<u>Cash Basis Fund Balances</u>			
Unreserved	\$ <u>34,980</u>	\$ <u>3,241</u>	\$ <u>38,221</u>

CITY OF MYSTIC, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mystic, Iowa is a political subdivision of the State of Iowa located in Appanoose County. It was first incorporated in 1889 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Mystic, Iowa has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Rathbun Solid Waste Commission, Area 15 Housing Board, Hazmat Team, and EMS Council.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

CITY OF MYSTIC, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund accounts for Local Option Sales Tax revenues and associated project expenditures.

The FEMA Fund accounts for FEMA revenues received and related project expenditures.

The Fire Department fund is used to account for Fire Department related receipts and disbursements.

The Debt Service Fund is used to account for the payment of interest and principal on the City's general obligation long term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Mystic, Iowa maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CITY OF MYSTIC, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, public works, health and social services, culture and recreation, general government, capital projects, debt service and business type activities functions.

NOTE 2: CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2010, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

NOTE 3: NOTES PAYABLE

Annual debt service requirements to maturity for general obligation and sewer revenue notes are as follows:

Year Ending June 30,	General Obligation Capital Loan Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 5,132	\$ 1,987	\$ 10,398	\$ 11,563	\$ 15,530	\$ 13,550
2012	5,265	1,926	10,806	11,058	16,071	12,984
2013	6,404	1,415	11,192	10,574	17,596	11,989
2014	6,548	1,046	11,613	10,057	18,161	11,103
2015	3,699	349	12,042	9,530	15,741	9,879
2016-2020	11,923	1,140	70,737	38,561	82,660	39,701
2021-2025	-	-	84,515	20,444	84,515	20,444
2026-2027	-	-	<u>31,948</u>	<u>2,497</u>	<u>31,948</u>	<u>2,497</u>
Total	\$ <u>38,971</u>	\$ <u>7,863</u>	\$ <u>243,251</u>	\$ <u>114,284</u>	\$ <u>282,222</u>	\$ <u>122,147</u>

The City has pledged future water and sewer customer receipts, net of specified operating disbursements, to repay \$55,814 and \$292,500 of water and sewer revenue notes issued in January 17, 2008 and June 27, 1988, respectively. Proceeds from the notes provided financing for water and sewer construction projects. The notes are payable solely from water and sewer customer net receipts and are payable through 2025 and 2027, respectively. The total principal and interest remaining to be paid on the notes is \$49,814 and \$193,437, respectively. For the current year, principal and interest paid were \$4,584 and \$34,686, respectively.

The City's Sewer Revenue Notes closing documents require a funded depreciation account to be established and funded at a rate of \$2,500 per year. As of June 30, 2010 the required depreciation account is underfunded by approximately \$55,000.

CITY OF MYSTIC, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 4: PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$4,992, \$3,496 and \$4,071, respectively, equal to the required contributions for each year.

NOTE 5: COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and personal time hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid.

NOTE 6: INTERFUND TRANSFER

The detail interfund transfers for the year ended June 30, 2010 is as follows:

General	Special Revenue:	
	FEMA	\$ 28,288
	Fire Department	1,832
	Proprietary:	
	Water	793
	Sewer	793
		<u>31,706</u>
Special Revenue:	General	151,071
FEMA		
Proprietary:		
Sewer	General	826
	Special Revenue:	
	FEMA	90
	Proprietary:	
	Water	5,000
		<u>5,916</u>
Water	General	795
	Special Revenue:	
	FEMA	469
		<u>1,264</u>
		\$ <u>189,957</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

NOTE 7: RISK MANAGEMENT

The City of Mystic, Iowa is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official's

CITY OF MYSTIC, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 7: RISK MANAGEMENT (Continued)

liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years. Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2010 were \$16,023.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in the aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8: COMMITMENTS

The City has agreed to pay a total of \$25,000 to assist with an Appanoose County project involving work on T14. The City began making annual payments of \$5,000 in 2007. The project is expected to be completed in 2010.

NOTE 9: DEFICIT BALANCE

The General Fund had a deficit balance of \$22,677 at June 30, 2010. The deficit balance was the result of current year expenditures exceeding current year receipts and the prior year ending cash balance. The deficit will be eliminated upon receipt of future years' property tax.

CITY OF MYSTIC, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 10: SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 11, 2011, the date the financial statements were available to be issued.

Subsequent to June 30, 2010 and prior to the issuance of the financial statements, the City of Mystic, Iowa requested Anderson, Larkin and Co. P.C. to perform a special investigation as a result of concerns identified by City staff regarding certain City disbursements and collections. The special investigation is being performed for a period subsequent to June 30, 2010. Copies of the special investigation will be filed with the Appanoose County Attorney's office when completed.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MYSTIC, IOWA

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2010

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Total</u>	Budgeted Amounts <u>Original/Final</u>	Final to Total <u>Variance</u>
<u>RECEIPTS:</u>					
Property tax	\$ 83,524	\$ -	\$ 83,524	\$ 68,707	\$ 14,817
Other city tax	45,005	-	45,005	40,061	4,944
Licenses and permits	632	-	632	930	(298)
Use of money and property	984	322	1,306	-	1,306
Intergovernmental	284,417	-	284,417	50,862	233,555
Charges for service	11,754	122,359	134,113	138,000	(3,887)
Miscellaneous	19,417	-	19,417	-	19,417
Total receipts	<u>445,733</u>	<u>122,681</u>	<u>568,414</u>	<u>298,560</u>	<u>269,854</u>
<u>DISBURSEMENTS:</u>					
Public safety	25,104	-	25,104	15,000	(10,104)
Public works	319,082	-	319,082	64,850	(254,232)
Health and social services	1,367	-	1,367	75	(1,292)
Culture and recreation	6,231	-	6,231	6,100	(131)
Community and economic development	250	-	250	500	250
General government	77,858	-	77,858	71,200	(6,658)
Capital projects	6,594	-	6,594	-	(6,594)
Debt service	15,414	39,455	54,869	3,500	(51,369)
Business type activities	-	132,135	132,135	120,000	(12,135)
Total disbursements	<u>451,900</u>	<u>171,590</u>	<u>623,490</u>	<u>281,225</u>	<u>(342,265)</u>
Excess (deficiency) of receipts over (under) disbursements	(6,167)	(48,909)	(55,076)	17,335	(72,411)
Other financing sources (uses)	<u>10,825</u>	<u>594</u>	<u>11,419</u>	<u>-</u>	<u>11,419</u>
Net change in cash balances	4,658	(48,315)	(43,657)	17,335	(60,992)
Balances beginning of year	<u>157,833</u>	<u>86,536</u>	<u>244,369</u>	<u>316,181</u>	<u>(71,812)</u>
Balances end of year	\$ <u>162,491</u>	\$ <u>38,221</u>	\$ <u>200,712</u>	\$ <u>333,516</u>	\$ <u>(132,804)</u>

CITY OF MYSTIC, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

JUNE 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, public works, health and social services, culture and recreation, general government, capital projects, debt service and business type activities functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF MYSTIC, IOWA

SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2010

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Revenue notes:			
Sewer utility	June 27, 1988	5.00%	\$ 292,500
Water utility	January 17, 2008	3.25%	<u>55,814</u>
			\$ <u>348,314</u>
General obligation capital loan notes:			
Series 1996	February 1, 1996	7.50%	\$ 30,000
Series 2008	May 23, 2008	4.25%	<u>35,000</u>
			\$ <u>65,000</u>

SCHEDULE 1

<u>Balance</u> <u>Beginning</u> <u>of Year</u>	<u>Issued</u> <u>During</u> <u>Year</u>	<u>Redeemed</u> <u>During</u> <u>Year</u>	<u>Balance</u> <u>End</u> <u>of Year</u>	<u>Interest</u> <u>Paid</u>	<u>Interest</u> <u>Due and</u> <u>Unpaid</u>
\$ 207,491	\$ -	\$ 14,054	\$ 193,437	\$ 20,632	\$ -
<u>52,814</u>	<u>-</u>	<u>3,000</u>	<u>49,814</u>	<u>1,584</u>	<u>-</u>
\$ <u>260,305</u>	\$ <u>-</u>	\$ <u>17,054</u>	\$ <u>243,251</u>	\$ <u>22,216</u>	\$ <u>-</u>
\$ 12,000	\$ -	\$ 2,000	\$ 10,000	\$ 900	\$ -
<u>35,000</u>	<u>-</u>	<u>6,029</u>	<u>28,971</u>	<u>2,711</u>	<u>-</u>
\$ <u>47,000</u>	\$ <u>-</u>	\$ <u>8,029</u>	\$ <u>38,971</u>	\$ <u>3,611</u>	\$ <u>-</u>

CITY OF MYSTIC, IOWA

NOTE MATURITIES
JUNE 30, 2010

Year Ending June 30,	Revenue Notes								Grand Total	
	Sewer				Water					
	Issued June 27, 1988				Issued January 17, 2008					
	Interest Rate		Amount		Interest Rate		Amount			
2011	5.00	%	\$	7,398	3.25	%	\$	3,000	\$	10,398
2012	5.00			7,806	3.25			3,000		10,806
2013	5.00			8,192	3.25			3,000		11,192
2014	5.00			8,613	3.25			3,000		11,613
2015	5.00			9,042	3.25			3,000		12,042
2016	5.00			9,529	3.25			3,000		12,529
2017	5.00			10,006	3.25			3,000		13,006
2018	5.00			10,519	3.25			4,000		14,519
2019	5.00			11,050	3.25			4,000		15,050
2020	5.00			11,633	3.25			4,000		15,633
2021	5.00			12,222	3.25			4,000		16,222
2022	5.00			12,848	3.25			4,000		16,848
2023	5.00			13,501	3.25			4,000		17,501
2024	5.00			14,203	3.25			4,000		18,203
2025	5.00			14,927	3.25			814		15,741
2026	5.00			15,693				-		15,693
2027	5.00			16,255				-		16,255
Total			\$	193,437			\$	49,814	\$	243,251

Year Ending June 30,	General Obligation						Grand Total	
	Capital Loan Notes			Capital Loan Notes				
	Issued February 1, 1996			Issued May 23, 2008				
	Interest		Amount	Interest		Amount		
	Rate			Rate				
2011	7.50 %	\$	2,000	4.25 %	\$	3,132	\$	5,132
2012	7.50		2,000	4.25		3,265		5,265
2013	7.50		3,000	4.25		3,404		6,404
2014	7.50		3,000	4.25		3,548		6,548
2015			-	4.25		3,699		3,699
2016			-	4.25		3,856		3,856
2017			-	4.25		4,020		4,020
2018			-	4.25		4,047		4,047
Total		\$	10,000		\$	28,971	\$	38,971

CITY OF MYSTIC, IOWA

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

FOR THE YEARS ENDED JUNE 30, 2010, 2009, 2008 AND 2006

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2006</u>
<u>RECEIPTS:</u>				
Property tax	\$ 83,524	\$ 70,093	\$ 75,876	\$ 54,424
Other city tax	45,005	38,434	38,032	36,939
Intergovernmental	284,417	106,117	157,194	80,254
Charges for service	11,754	15,128	8,977	8,926
Licenses and permits	632	-	-	390
Use of money and property	984	496	2,564	1,618
Miscellaneous	19,417	12,533	6,556	2,173
Total receipts	\$ <u>445,733</u>	\$ <u>242,801</u>	\$ <u>289,199</u>	\$ <u>184,724</u>
<u>DISBURSEMENTS:</u>				
Operating:				
Public safety	25,104	\$ 11,780	\$ 24,826	\$ 38,127
Public works	319,082	105,514	117,090	113,944
Health and social services	1,367	-	-	-
Culture and recreation	6,231	4,248	8,810	-
Community and economic development	250	4,079	25	13,095
General government	77,858	62,887	62,373	50,360
Capital projects	6,594	86,573	58,186	3,500
Debt service	15,414	5,125	-	-
Total disbursements	\$ <u>451,900</u>	\$ <u>280,206</u>	\$ <u>271,310</u>	\$ <u>219,026</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Mystic, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated July 11, 2011. Our report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mystic, Iowa's internal control over financial reporting as a basis designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Mystic, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Mystic, Iowa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Mystic, Iowa's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-A-10, II-B-10 and II-C-10 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-D-10, II-E-10 and II-F-10 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Mystic, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Mystic, Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Mystic, Iowa's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Mystic, Iowa and other parties to whom the City of Mystic, Iowa may report including federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Mystic, Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
July 11, 2011

CITY OF MYSTIC, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part I: Summary of the Independent Auditor's Results

- a) Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Significant Deficiencies:

- II-A-10 Accounting Policies and Procedures Manual – The City does not have a current accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits.

- 1. Aid in training additional or replacement personnel and act as a quick reference to staff members and officials.
- 2. Increased effectiveness and efficiency in your organization by streamlining accounting operations and achieving uniformity in accounting.
- 3. Helps preserve the key elements in the government's internal control structure.

Response – The City Clerk and Council will work on preparing an accounting policies and procedures manual.

Conclusion – Response accepted.

- II-B-10 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. All accounting/bookkeeping duties are performed by one employee with limited oversight.

Recommendation – We realize segregation of duties is difficult with a single office employee. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-C-10 Reconciliation of Bank Accounts – City bank accounts were not properly reconciled throughout the year.

Recommendation – The City should formalize its procedures for reconciling bank accounts each month. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We will consider performing a formal reconciliation for Council approval on a monthly basis.

Conclusion – Response accepted.

CITY OF MYSTIC, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part II: Findings Related to the Financial Statements (Continued)

- II-D-10 Bank Accounts – During the audit, it was noted that the City has 11 bank accounts with many accounts transferring money back and forth several times each month.

Recommendation – The City should consider combining or eliminating several of these accounts to help ease the administrative burden of reconciling all of these accounts.

Response – We will consider this.

Conclusion – Response accepted.

- II-E-10 Overdrawn Account – On January 26, 2010, the City's sewer fund checking account was overdrawn.

Recommendation – The City should more closely monitor it's cash balances to avoid cash overdrafts.

Response – We will do so from now on.

Conclusion – Response accepted.

- II-F-10 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We will consider this.

Conclusion – Response accepted.

Instances of Noncompliance:

No matters were noted.

Part III: Other Findings Related to Required Statutory Reporting:

- III-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in public safety, public works, health and social services, culture and recreation, general government, capital projects, debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, that "Public monies may not be expended or encumbered except under annual or continuing appropriation".

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – In the future, we will monitor our budget to actual status on a monthly basis.

Conclusion – Response accepted.

- III-B-10 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- III-C-10 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF MYSTIC, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part III: Other Findings Related to Required Statutory Reporting: (Continued)

III-D-10 Business Transactions – Business transactions between the City and City officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Pearl Seals, Spouse of City Council Member	Contract Labor	<u>\$4,685</u>

In accordance with Chapter 362.5 (10) of the Code of Iowa, the transactions with the spouse of a council member appears to represent a conflict of interest since total transactions exceed \$1500 for the fiscal year and they were not entered into through the competitive bidding.

Recommendation – All business transactions between the City and City officials or related parties should be entered into through the competitive bidding process.

Response – We will do so.

Conclusion – Response accepted.

III-E-10 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-10 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The City went into closed session on January 21, 2010, but did not cite an exemption in accordance with Chapter 21 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa Chapter 21.

Response – We will do so from now on.

Conclusion – Response accepted.

III-G-10 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.

The City is required to adopt an investment policy which complies with Chapter 12B.10B of the Code of Iowa. During the audit the City Clerk was unable to locate a copy of the City's investment policy.

Recommendation – The City should locate and update its investment policy.

Response – We will locate and update the City's investment policy.

Conclusion – Response accepted.

III-H-10 Revenue Notes – The City's sewer revenue note closing documents require a funded depreciation account to be established and funded at a rate of \$2,500 per year. As of June 30, 2010, the required depreciation account is underfunded by approximately \$55,000.

Part III: Other Findings Related to Required Statutory Reporting: (Continued)

Recommendation – The City should investigate budgeting alternatives and rate increases to eliminate the underfunding.

Response – We will review our budgeting procedures and consider rate adjustments to eliminate the underfunding.

Conclusion – Response acknowledged.

III-I-10 Financial Condition – The General Fund had a deficit balance at June 30, 2010.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position.

Response – The deficit in the General Fund is expected to be eliminated through future property tax receipts.

Conclusion – Response accepted.

III-J-10 Annual Report – The annual report was not filed by its due date of December 1, 2010.

Recommendation – The City should comply with Code of Iowa requirements.

Response – We will do so from now on.

Conclusion – Response accepted.